

Multiple Agency Fiscal Note Summary

Bill Number: 2081 E S HB	Title: Business and occupation tax
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Estimated Cash Receipts

Agency Name	2025-27			2027-29			2029-31		
	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total	GF-State	NGF-Outlook	Total
Department of Revenue	1,413,000,000	2,066,200,000	2,066,200,000	2,589,100,000	3,556,800,000	3,556,800,000	1,821,100,000	2,839,700,000	2,839,700,000
Total \$	1,413,000,000	2,066,200,000	2,066,200,000	2,589,100,000	3,556,800,000	3,556,800,000	1,821,100,000	2,839,700,000	2,839,700,000

Agency Name	2025-27		2027-29		2029-31	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	Fiscal note not available					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2025-27				2027-29				2029-31			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Revenue	13.0	3,680,300	3,680,300	3,680,300	10.9	2,332,200	2,332,200	2,332,200	5.1	1,129,500	1,129,500	1,129,500
Total \$	13.0	3,680,300	3,680,300	3,680,300	10.9	2,332,200	2,332,200	2,332,200	5.1	1,129,500	1,129,500	1,129,500

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Fiscal note not available								
Local Gov. Total									

Estimated Capital Budget Expenditures

Agency Name	2025-27			2027-29			2029-31		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Revenue	.0	0	0	.0	0	0	.0	0	0
Total \$	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2025-27			2027-29			2029-31		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	Fiscal note not available								
Local Gov. Total									

Estimated Capital Budget Breakout

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Prepared by: Megan Tudor, OFM	Phone: (360) 890-1722	Date Published: Preliminary 4/25/2025
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Department of Revenue Fiscal Note

Bill Number: 2081 E S HB	Title: Business and occupation tax	Agency: 140-Department of Revenue
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Part I: Estimates

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No Fiscal Impact

Estimated Cash Receipts to:

Account	FY 2026	FY 2027	2025-27	2027-29	2029-31
GF-STATE-State 01 - Taxes 05 - Bus and Occup Tax	308,500,000	1,104,500,000	1,413,000,000	2,589,100,000	1,821,100,000
Workforce Education Investment Account-State 01 - Taxes 05 - Bus and Occup Tax	188,100,000	465,100,000	653,200,000	967,700,000	1,018,600,000
Total \$	496,600,000	1,569,600,000	2,066,200,000	3,556,800,000	2,839,700,000

Estimated Expenditures from:

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	10.0	15.9	13.0	10.9	5.1
Account					
GF-STATE-State 001-1	1,914,100	1,766,200	3,680,300	2,332,200	1,129,500
Total \$	1,914,100	1,766,200	3,680,300	2,332,200	1,129,500

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

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If fiscal impact is greater than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

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If fiscal impact is less than \$50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐

Capital budget impact, complete Part IV.

☒

Requires new rule making, complete Part V.

Legislative Contact:	Phone:	Date: 04/24/2025
Agency Preparation: Melissa Howes	Phone: (360) 534-1518	Date: 04/24/2025
Agency Approval: Valerie Torres	Phone: (360) 534-1521	Date: 04/24/2025
OFM Review: Megan Tudor	Phone: (360) 890-1722	Date: 04/25/2025

Request # 2081-3-1

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Significant provisions of the bill and any related workload or policy assumptions that have revenue or expenditure impact on the responding agency by section number.

Note: This fiscal note reflects language in ESHB 2081, 2025 Legislative Session.

COMPARISON OF ENGROSSED SUBSTITUTE BILL WITH SUBSTITUTE BILL:

- The B&O surcharge expires on December 31, 2029, instead of December 31, 2030.
- Wholesale and retail motor vehicle fuel sales are exempt from the B&O surcharge.
- Amounts subject to any timber products taxes are exempt from the B&O surcharge.
- Requires the department to work with the Business Advisory Council and stakeholders to make recommendations for tax simplification.
- Modifies the definition of family investment vehicle.

CURRENT LAW:

Washington's primary business tax is the business and occupation (B&O) tax. Businesses operating in Washington pay B&O tax on the business's gross income without deductions for the cost of doing business. A business's activities determine the B&O tax classification(s) and tax rate(s) for which the business pays B&O taxes.

The major B&O tax rates include:

0.471% for retailing.

0.484% for manufacturing, wholesaling, and extracting.

1.5% for service and other activities when the business's taxable service and other activities income is less than \$1 million in the prior year.

1.75% for service and other activities if the business's taxable service and other activities income is \$1 million or more in the prior year.

The General Fund receives the majority of B&O taxes collected. One exception is tax collected from the 1.75% service and other activities B&O tax rate; the Workforce Education Investment Account (WEIA) receives 14.3% of those tax collections.

A B&O tax deduction is available for amounts derived from investments that are incidental to the main purpose of the business.

This deduction does not apply to:

- Amounts received from loans, the extension of credit, revolving credit arrangements, installment sales, and similar interest income.
- Banking, lending, or security businesses.

Certain taxpayers pay B&O surcharges in addition to B&O tax, such as the specified financial institution surcharge and the workforce education investment surcharge. Surcharges are in addition to B&O tax.

The additional tax on specified financial institutions is a 1.2% B&O surcharge on their service and other activities income.

A specified financial institution is a member of a consolidated financial institution group that reported an annual net income of at least \$1 billion on its consolidated financial statement for the previous year, not including net income attributable to noncontrolling interests.

The workforce education investment advanced computing surcharge (ACS) is a 1.22% B&O surcharge on the service & other activities B&O income of select advanced computing businesses subject.

The amount of ACS paid by all members of an affiliated group is capped at \$9 million per calendar year.

The General Fund receives the tax collections from the additional tax on specified financial institutions. The Workforce Education Investment Account receives the tax collections from the ACS.

PROPOSAL:

PART I - BUSINESS AND OCCUPATION RATE CHANGES

Part I of this bill increases the B&O tax rates for:

- All B&O classifications that have a tax rate of 0.471% or 0.484% to 0.5%.
- Gambling contests of chance to 1.8%.

The service and other activities tax rate is increased to 2.1% when a taxpayer (or the taxpayer's group of affiliates) has service and other activities taxable income of \$5 million or more in the preceding calendar year.

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

Part II of this bill creates an additional 0.5% B&O surcharge on taxpayers with taxable income over \$250 million and excludes:

- Specified financial institutions.
- Manufacturing and the sale of manufactured goods by a manufacturer.
- Farmers or apiarists.
- Sales of food, food ingredients, food stamp purchases, and prescription drugs.
- Wholesale and retail petroleum product sales by a business located outside of Washington when an affiliated processor-for-hire processed the petroleum.
- Select advanced computing businesses subject to the workforce education advanced computing B&O surcharge.
- Retail and wholesale sales of motor vehicle fuel.
- Amounts reported under any of the timber products tax classifications.

The exclusions apply to the measure of taxable income and the measure of tax.

The B&O surcharge expires on December 31, 2029.

Part II also increases the B&O surcharge on specified financial institutions to 1.5%.

PART III - ADVANCED COMPUTING SURCHARGE

Part III of this bill increases the B&O surcharge on select advanced computing businesses to 7.5% and the annual cap to \$75 million.

Beginning in fiscal year 2028, and each year thereafter, when the number of qualified Washington state applicants exceeds the available enrollments by 100 at computer science engineering degree programs in four-year state universities, then a

commensurate number of computer science and engineering degree enrollments at those state universities must be automatically added and funded for the surcharge imposed under this section to accommodate the additional demand.

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION UNDER RCW 82.04.4281

Part IV of this bill defines what it means for investments to be incidental to the main purpose of a person's business. Investments are incidental to the main purposes of a person's business if the income from investments is less than 5% of the person's worldwide gross income from all sources annually.

The following may deduct all investment income, even if their income is 5% or more.

- Non-profit organizations.
- Collective investment vehicles (CIV).
- Retirement accounts.
- Family investment vehicles.

However, the deduction for a CIV's investment income does not include the following:

- Amounts received by a CIV investor.
- Amounts received as compensation for services rendered to CIVs or their investors.
- Non-investment income received by a CIV.
- Amounts derived from factoring.

A CIV is a person who meets the following criteria:

- Has total gross income derived from its investments of 90% or more of total worldwide gross income.
- Holds title to passive investment assets for the benefit of investors and has another person who serves as the CIV's manager or advisor making the investment decisions.
- Accepts unrelated persons as investors.

A CIV may be a mutual fund, collective fund, or similar investment vehicle.

A retirement account is any qualified plan established under any of the provisions of sections 401 through 409, inclusive, of the Internal Revenue Code.

A family investment vehicle is:

- The estate of any decedent.
- An inter vivos or testamentary trust provided that the grantor and all beneficiaries are either members of the family or nonprofit organizations.
- A qualified tuition program established under the provisions of the Internal Revenue Code section 529.
- A Coverdell education savings account established under the provisions of the Internal Revenue Code section 530.

The department must adopt rules illustrating the taxability of personal investments and investment income received through CIVs.

PART V - MISCELLANEOUS PROVISIONS

The new tax preference performance provisions do not apply to this bill (see section 501).

EFFECTIVE DATE:

PART I - BUSINESS AND OCCUPATION RATE CHANGES

The new line code to increase the service and other activities (\$5 million or greater) rate to 2.1% takes effect October 1, 2025 (section 109). However, due to the time it will take to program for the new line code, the department cannot implement the bill until January 1, 2026.

The increase to all B&O classifications with a tax rate of 0.471% or 0.484% to 0.5% and the change to 1.8% for games of contests take effect January 1, 2027 (sections 101 through 108 and sections 110 through 112). These rates continue after January 1, 2034 (section 113).

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

The additional 0.5% B&O surcharge on certain taxpayers with taxable income over \$250 million takes effect on January 1, 2026 (section 201), and expires on December 31, 2029.

The specified financial institutions' B&O surcharge increase to 1.5% takes effect October 1, 2025 (section 202).

PART III - ADVANCED COMPUTING SURCHARGE

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION UNDER RCW 82.04.4281

Parts III and IV (sections 301, 401, and 402) take effect on January 1, 2026.

II. B - Cash receipts Impact

Cash receipts impact of the legislation on the responding agency with the cash receipts provisions identified by section number and when appropriate, the detail of the revenue sources. Description of the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explanation of how workload assumptions translate into estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Under this legislation, the amount of revenue shared with tribes may increase.

PART I - BUSINESS AND OCCUPATION RATE CHANGES

- The department will implement the service and other tax activities increase by January 1, 2026, which impacts five months of cash collections in fiscal year 2026.
- The standard B&O tax rate increases will be implemented on January 1, 2027, impacting five months of collections in fiscal year 2027.
- The annual growth for aerospace B&O tax classifications reflects the growth in aerospace products and parts production in the S&P Global Market Intelligence November 2024 forecast.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 taxable B&O forecast.

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

- The specified financial institutions' B&O surcharge rate increase takes effect October 1, 2025, and impacts eight months of collections in fiscal year 2026.
- The B&O surcharge on high-grossing businesses is effective January 1, 2026, and impacts five months of collections in fiscal year 2026. The surcharge expires December 31, 2029.
- Manufacturing-related activities are the amounts reported on excise tax returns with manufacturing line codes and the related manufactured product selling activity reported on the Multiple Activities Tax Credit Schedule C.
- Some manufacturers "net" reported amounts instead of taking the multiple tax activities credit. The businesses identified as doing so were removed from the population.
- Deductions taken on the excise tax returns for exempt food, prescription drugs, and motor vehicle fuel sales are used to estimate the amount of such sales.

Request # 2081-3-1

- Taxpayers who owe the B&O surcharge must file excise tax returns monthly.
- The general fund receives the taxes from the B&O surcharge.

PART III - ADVANCED COMPUTING SURCHARGE

- The ACS changes take effect January 1, 2026, and impact one quarter of ACS collections in fiscal year 2026
- Taxpayers file the ACS return quarterly on one return for all entities in an affiliated group.
- Because the amount of ACS tax paid is capped, 41% of the annual tax paid is collected in quarter 1 of the calendar year.

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION FOR INVESTMENT INCOME

- The revenue impact from the 5% investment income requirement is indeterminate but positive. The data needed to calculate such impact is unavailable.
- The revenue impact from the non-profit organization exemption is indeterminate but negative. The data needed to calculate such impact is unavailable.
- There is no revenue impact from Part IV's CIV deduction; this clarifies current law.
- The CIV requirement that a CIV accept unrelated persons as investors means the CIV accepts investors outside its affiliates, subsidiary entities, parent entity, or subsidiaries of the CIV's common parent entity.

DATA SOURCES:

- Department of Revenue, Excise tax data
- Economic and Revenue Forecast Council, November 2024 taxable B&O forecast
- S&P Global Market Intelligence, November 2024 forecast for Aerospace Products and Parts
- Federal Financial Institutions Examination Council, Call reports
- Federal Deposit Insurance Corporation data

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$496.6 million in the eight months of impacted collections in fiscal year 2026, and by \$1.570 billion in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 496,600
FY 2027 -	\$ 1,569,600
FY 2028 -	\$ 1,739,200
FY 2029 -	\$ 1,817,600
FY 2030 -	\$ 1,565,500
FY 2031 -	\$ 1,274,200

Local Government, if applicable (cash basis, \$000): None.

II. C - Expenditures

Agency expenditures necessary to implement this legislation (or savings resulting from this legislation), with the provisions of the legislation that result in the expenditures (or savings) identified by section number. Description of the factual basis of the assumptions and the method by which the expenditure impact is derived. Explanation of how workload assumptions translate into cost estimates. Distinguished between one time and ongoing functions.

ASSUMPTIONS:

This proposal affects 191,000 taxpayers.

FIRST YEAR COSTS:

The department will incur total costs of \$1,914,100 in fiscal year 2026. These costs include:

Request # 2081-3-1

Form FN (Rev 1/00) 206,880.00

6

Bill # 2081 E S HB

Labor Costs – Time and effort equate to 10.02 FTEs.

- Amend two administrative rules and adopt one new administrative rule.
- Amend one Excise Tax Advisory (ETA).
- Create a special notice and update relevant information on the department's website.
- Gather requirements, attend implementation meetings, and document system changes.
- Set up, program, and test computer system changes.
- Hear additional administrative reviews that provide taxpayers with an informal, non-adversarial dispute resolution process for the review of a disputed action by the department, such as an assessment of taxes, notice of taxes due, denial of a refund request, or tax ruling.
- Accounting activities for the new tax rates; compiling receivable information for statewide financial statements and stakeholders.
- Investigate, assess, and collect additional taxes from affected taxpayers.
- Respond to data requests and questions, compile statistics, and manage data.
- Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Answer phone calls at the telephone information center on tax questions and tax return preparation from businesses, individuals, and accountants.
- Convene additional Business Advisory Council meetings and recruit and convene meetings for a separate stakeholder group of taxpayers to recommend statutory and administrative changes to simplify and improve tax compliance such as simplifying online filing, the development of guidance for taxpayers to improve the accuracy of tax reporting and enhance the accessibility of the information.

Object Costs - \$649,500.

- Computer system changes, including contract programming.
- Purchase one additional agent seat license for the Telephone Information Center.

SECOND YEAR COSTS:

The department will incur total costs of \$1,766,200 in fiscal year 2027. These costs include:

Labor Costs – Time and effort equate to 15.9 FTEs.

- Amend one administrative rule.
- Create a special notice and update relevant information on the department's website.
- Continued computer system testing, monitoring, and maintenance.
- Hear additional administrative reviews that provide taxpayers with an informal, non-adversarial dispute resolution process for the review of a disputed action by the department, such as an assessment of taxes, notice of taxes due, denial of a refund request, or tax ruling.
- Develop, improve, and maintain websites and educate and inform customers.
- Investigate, assess, and collect additional taxes from affected taxpayers.
- Respond to data requests and questions, compile statistics, and manage data.
- Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Answer phone calls at the telephone information center on tax questions and tax return preparation from businesses, individuals, and accountants.

- Convene additional Business Advisory Council meetings and separate meetings with a stakeholder group of taxpayers to recommend statutory and administrative changes to simplify and improve tax compliance such as simplifying online filing, the development of guidance for taxpayers to improve the accuracy of tax reporting and enhancing the accessibility of the information.

Object Costs - \$9,100.

- Print and mail a special notice to all affected taxpayers.
- Print and mail additional taxpayer correspondence.

THIRD YEAR COSTS:

The department will incur total costs of \$1,364,800 in fiscal year 2028. These costs include:

Labor Costs – Time and effort equate to 12.8 FTEs.

- Hear additional administrative reviews that provide taxpayers with an informal, non-adversarial dispute resolution process for the review of a disputed action by the department, such as an assessment of taxes, notice of taxes due, denial of a refund request, or tax ruling.
- Investigate, assess, and collect additional taxes from affected taxpayers.
- Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Answer phone calls at the telephone information center on tax questions and tax return preparation from businesses, individuals, and accountants.
- Continued computer system testing, monitoring, and maintenance.
- Convene additional Business Advisory Council meetings and separate meetings with a stakeholder group of taxpayers to recommend statutory and administrative changes to simplify and improve tax compliance such as simplifying online filing, the development of guidance for taxpayers to improve the accuracy of tax reporting and enhancing the accessibility of the information.

Object Costs - \$6,600.

- Print and mail additional taxpayer correspondence.

FOURTH YEAR COSTS:

The department will incur total costs of \$967,400 in fiscal year 2029. These costs include:

Labor Costs – Time and effort equate to 8.9 FTEs.

- Hear additional administrative reviews that provide taxpayers with an informal, non-adversarial dispute resolution process for the review of a disputed action by the department, such as an assessment of taxes, notice of taxes due, denial of a refund request, or tax ruling.
- Investigate, assess, and collect additional taxes from affected taxpayers.
- Process tax return work items, assist taxpayers with reporting questions, and respond to inquiries via email, web message, and paper correspondence.
- Examine accounts and make corrections as necessary.
- Convene additional Business Advisory Council meetings and separate meetings with a stakeholder group of taxpayers to recommend statutory and administrative changes to simplify and improve tax compliance such as simplifying online filing, the development of guidance for taxpayers to improve the accuracy of tax reporting and enhancing the accessibility of the

information.

Object Costs - \$4,300.

- Print and mail additional taxpayer correspondence.

ONGOING COSTS:

Ongoing costs for the 2029-31 biennium equal \$1,129,500 and include similar activities described in the fourth-year costs. Time and effort equate to 5.05 FTEs.

Part III: Expenditure Detail

III. A - Expenditures by Object Or Purpose

	FY 2026	FY 2027	2025-27	2027-29	2029-31
FTE Staff Years	10.0	15.9	13.0	10.9	5.1
A-Salaries and Wages	791,500	1,091,100	1,882,600	1,454,900	706,000
B-Employee Benefits	285,200	392,800	678,000	524,100	254,500
C-Professional Service Contracts	646,500		646,500		
E-Goods and Other Services	150,500	234,400	384,900	310,900	149,500
G-Travel	400	400	800	800	
J-Capital Outlays	40,000	47,500	87,500	41,500	19,500
Total \$	\$1,914,100	\$1,766,200	\$3,680,300	\$2,332,200	\$1,129,500

III. B - Detail: *FTEs listed by classification and corresponding annual compensation. Totals agree with total FTEs in Part I and Part IIIA.*

Job Classification	Salary	FY 2026	FY 2027	2025-27	2027-29	2029-31
ADM ASST 3	47,988		0.1	0.1	0.1	
CUSTOMER SERV SP4	51,588	1.0	1.0	1.0	1.0	1.0
EMS BAND 4	135,635	0.0	0.0	0.0		
EMS BAND 5	158,451	0.0		0.0		
EXCISE TAX EX 2	59,844	1.6	5.8	3.7	4.6	1.4
EXCISE TAX EX 3	66,012	1.3	3.0	2.2	2.4	0.8
EXCISE TAX EX 4	72,924	0.1	0.8	0.5	0.7	0.4
IT B A-JOURNEY	94,728	1.5	0.7	1.1	0.1	
IT B A-SR/SPEC	104,412	0.3		0.2		
IT QA-SR/SPEC	104,412	0.1		0.1		
IT SYS ADM-JOURNEY	99,444	1.1	0.4	0.8		
MGMT ANALYST4	78,468	0.0	0.0	0.0		
MGMT ANALYST5	86,712	0.5	0.5	0.5	0.5	0.5
REVENUE AGENT 3	67,716	0.2	0.2	0.2	0.2	
REVENUE AGENT 4	71,148	0.2	0.2	0.2	0.2	
TAX INFO SPEC 1	47,988	0.2	0.9	0.6	0.1	
TAX POLICY SP 2	80,460	0.3	0.3	0.3		
TAX POLICY SP 3	91,068	0.8	1.0	0.9	0.5	0.3
TAX POLICY SP 4	98,040	0.4	0.5	0.5	0.5	0.4
WEB DESIGNER & UI/UX	82,512		0.1	0.1		
SPECIALIST 3						
WMS BAND 2	101,410	0.3	0.3	0.3	0.3	0.3
WMS BAND 3	115,352	0.0	0.0	0.0		
Total FTEs		10.0	15.9	13.0	10.9	5.1

III. C - Expenditures By Program (optional)

NONE

Request # 2081-3-1

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Acquisition and construction costs not reflected elsewhere on the fiscal note and description of potential financing methods.

NONE

Part V: New Rule Making Required

Provisions of the bill that require the agency to adopt new administrative rules or repeal/revise existing rules.

Should this legislation become law, the department will use the expedited rulemaking process to amend the following rules:

- WAC 458-20-290, titled: "Workforce education investment surcharge - Select advanced computing program."
- WAC 458-20-146, titled: "National and state banks, mutual savings banks, savings and loan associations and other financial institutions."
- WAC 458-20-135, titled: "Extracting natural products."

Should this legislation become law, the department will use the standard rulemaking process to adopt one new rule under chapter 458-20 WAC.

This rulemaking would affect taxpayers who report income under the B&O tax, use the investment income deduction, taxpayers with Washington taxable income over \$250 million per calendar year, and those subject to the financial institutions surcharge.



Ten-Year Analysis

Bill Number	Title	Agency
2081 E S HB	Business and occupation tax	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Estimates

☐ **No Cash Receipts**
☐ **Partially Indeterminate Cash Receipts**
☐ **Indeterminate Cash Receipts**

Estimated Cash Receipts

Name of Tax or Fee	Acct Code	Fiscal Year 2026	Fiscal Year 2027	Fiscal Year 2028	Fiscal Year 2029	Fiscal Year 2030	Fiscal Year 2031	Fiscal Year 2032	Fiscal Year 2033	Fiscal Year 2034	Fiscal Year 2035	2026-35 TOTAL
Business and Occupation Tax	001	308,500,000	1,104,500,000	1,261,500,000	1,327,600,000	1,062,800,000	758,300,000	789,000,000	820,900,000	853,900,000	888,600,000	9,175,600,000
Business and Occupation Tax	24J	188,100,000	465,100,000	477,700,000	490,000,000	502,700,000	515,900,000	528,800,000	540,600,000	552,200,000	564,600,000	4,825,700,000
Total		496,600,000	1,569,600,000	1,739,200,000	1,817,600,000	1,565,500,000	1,274,200,000	1,317,800,000	1,361,500,000	1,406,100,000	1,453,200,000	14,001,300,000
Biennial Totals		2,066,200,000		3,556,800,000		2,839,700,000		2,679,300,000		2,859,300,000		14,001,300,000

Narrative Explanation (Required for Indeterminate Cash Receipts)

Note: This fiscal note reflects language in ESHB 2081, 2025 Legislative Session.

COMPARISON OF ENGROSSED SUBSTITUTE BILL WITH SUBSTITUTE BILL:

- The B&O surcharge expires on December 31, 2029, instead of December 31, 2030.
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- Amounts subject to any timber products taxes are exempt from the B&O surcharge.
- Requires the department to work with the Business Advisory Council and stakeholders to make recommendations for tax simplification.
- Modifies the definition of family investment vehicle.

CURRENT LAW:

Washington's primary business tax is the business and occupation (B&O) tax. Businesses operating in Washington pay B&O tax on the business's gross income without deductions for the cost of doing business. A business's activities determine the B&O tax classification(s) and tax rate(s) for which the business pays B&O taxes.



Ten-Year Analysis

Bill Number	Title	Agency
2081 E S HB	Business and occupation tax	140 Department of Revenue

This ten-year analysis is limited to agency estimated cash receipts associated with the proposed tax or fee increases. The Office of Financial Management ten-year projection can be found at <http://www.ofm.wa.gov/tax/default.asp>.

Narrative Explanation (Required for Indeterminate Cash Receipts)

The major B&O tax rates include:

0.471% for retailing.

0.484% for manufacturing, wholesaling, and extracting.

1.5% for service and other activities when the business's taxable service and other activities income is less than \$1 million in the prior year.

1.75% for service and other activities if the business's taxable service and other activities income is \$1 million or more in the prior year.

The General Fund receives the majority of B&O taxes collected. One exception is tax collected from the 1.75% service and other activities B&O tax rate; the Workforce Education Investment Account (WEIA) receives 14.3% of those tax collections.

A B&O tax deduction is available for amounts derived from investments that are incidental to the main purpose of the business.

This deduction does not apply to:

- Amounts received from loans, the extension of credit, revolving credit arrangements, installment sales, and similar interest income.
- Banking, lending, or security businesses.

Certain taxpayers pay B&O surcharges in addition to B&O tax, such as the specified financial institution surcharge and the workforce education investment surcharge. Surcharges are in addition to B&O tax.

The additional tax on specified financial institutions is a 1.2% B&O surcharge on their service and other activities income.

A specified financial institution is a member of a consolidated financial institution group that reported an annual net income of at least \$1 billion on its consolidated financial statement for the previous year, not including net income attributable to noncontrolling interests.

The workforce education investment advanced computing surcharge (ACS) is a 1.22% B&O surcharge on the service & other activities B&O income of select advanced computing businesses subject.

The amount of ACS paid by all members of an affiliated group is capped at \$9 million per calendar year.

The General Fund receives the tax collections from the additional tax on specified financial institutions. The Workforce Education Investment Account receives the tax collections from the ACS.



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Narrative Explanation (Required for Indeterminate Cash Receipts)

PROPOSAL:

PART I - BUSINESS AND OCCUPATION RATE CHANGES

Part I of this bill increases the B&O tax rates for:

- All B&O classifications that have a tax rate of 0.471% or 0.484% to 0.5%.
- Gambling contests of chance to 1.8%.

The service and other activities tax rate is increased to 2.1% when a taxpayer (or the taxpayer's group of affiliates) has service and other activities taxable income of \$5 million or more in the preceding calendar year.

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

Part II of this bill creates an additional 0.5% B&O surcharge on taxpayers with taxable income over \$250 million and excludes:

- Specified financial institutions.
- Manufacturing and the sale of manufactured goods by a manufacturer.
- Farmers or apiarists.
- Sales of food, food ingredients, food stamp purchases, and prescription drugs.
- Wholesale and retail petroleum product sales by a business located outside of Washington when an affiliated processor-for-hire processed the petroleum.
- Select advanced computing businesses subject to the workforce education advanced computing B&O surcharge.
- Retail and wholesale sales of motor vehicle fuel.
- Amounts reported under any of the timber products tax classifications.

The exclusions apply to the measure of taxable income and the measure of tax.

The B&O surcharge expires on December 31, 2029.

Part II also increases the B&O surcharge on specified financial institutions to 1.5%.

PART III - ADVANCED COMPUTING SURCHARGE



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

Part III of this bill increases the B&O surcharge on select advanced computing businesses to 7.5% and the annual cap to \$75 million.

Beginning in fiscal year 2028, and each year thereafter, when the number of qualified Washington state applicants exceeds the available enrollments by 100 at computer science engineering degree programs in four-year state universities, then a commensurate number of computer science and engineering degree enrollments at those state universities must be automatically added and funded for the surcharge imposed under this section to accommodate the additional demand.

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION UNDER RCW 82.04.4281

Part IV of this bill defines what it means for investments to be incidental to the main purpose of a person's business. Investments are incidental to the main purposes of a person's business if the income from investments is less than 5% of the person's worldwide gross income from all sources annually.

The following may deduct all investment income, even if their income is 5% or more.

- Non-profit organizations.
- Collective investment vehicles (CIV).
- Retirement accounts.
- Family investment vehicles.

However, the deduction for a CIV's investment income does not include the following:

- Amounts received by a CIV investor.
- Amounts received as compensation for services rendered to CIVs or their investors.
- Non-investment income received by a CIV.
- Amounts derived from factoring.

A CIV is a person who meets the following criteria:

- Has total gross income derived from its investments of 90% or more of total worldwide gross income.
- Holds title to passive investment assets for the benefit of investors and has another person who serves as the CIV's manager or advisor making the investment decision
- Accepts unrelated persons as investors.

A CIV may be a mutual fund, collective fund, or similar investment vehicle.

A retirement account is any qualified plan established under any of the provisions of sections 401 through 409, inclusive, of the Internal Revenue Code.



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

A family investment vehicle is:

- The estate of any decedent.
- An inter vivos or testamentary trust provided that the grantor and all beneficiaries are either members of the family or nonprofit organizations.
- A qualified tuition program established under the provisions of the Internal Revenue Code section 529.
- A Coverdell education savings account established under the provisions of the Internal Revenue Code section 530.

The department must adopt rules illustrating the taxability of personal investments and investment income received through CIVs.

PART V - MISCELLANEOUS PROVISIONS

The new tax preference performance provisions do not apply to this bill (see section 501).

EFFECTIVE DATE:

PART I - BUSINESS AND OCCUPATION RATE CHANGES

The new line code to increase the service and other activities (\$5 million or greater) rate to 2.1% takes effect October 1, 2025 (section 109). However, due to the time it will take to program for the new line code, the department cannot implement the bill until January 1, 2026.

The increase to all B&O classifications with a tax rate of 0.471% or 0.484% to 0.5% and the change to 1.8% for games of contests take effect January 1, 2027 (sections 101 through 108 and sections 110 through 112). These rates continue after January 1, 2034 (section 113).

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

The additional 0.5% B&O surcharge on certain taxpayers with taxable income over \$250 million takes effect on January 1, 2026 (section 201), and expires on December 2029.

The specified financial institutions' B&O surcharge increase to 1.5% takes effect October 1, 2025 (section 202).

PART III - ADVANCED COMPUTING SURCHARGE

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION UNDER RCW 82.04.4281



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

Parts III and IV (sections 301, 401, and 402) take effect on January 1, 2026.

ASSUMPTIONS:

Currently, tribes with compacts receive a share of state sales and use taxes and certain business and occupation taxes (RCW 43.06.523). Under this legislation, the amount of revenue shared with tribes may increase.

PART I - BUSINESS AND OCCUPATION RATE CHANGES

- The department will implement the service and other tax activities increase by January 1, 2026, which impacts five months of cash collections in fiscal year 2026.
- The standard B&O tax rate increases will be implemented on January 1, 2027, impacting five months of collections in fiscal year 2027.
- The annual growth for aerospace B&O tax classifications reflects the growth in aerospace products and parts production in the S&P Global Market Intelligence November 2024 forecast.
- The annual growth rate reflects the Economic and Revenue Forecast Council's November 2024 taxable B&O forecast.

PART II - SURCHARGE ON HIGH-GROSSING BUSINESSES AND FINANCIAL INSTITUTIONS

- The specified financial institutions' B&O surcharge rate increase takes effect October 1, 2025, and impacts eight months of collections in fiscal year 2026.
- The B&O surcharge on high-grossing businesses is effective January 1, 2026, and impacts five months of collections in fiscal year 2026. The surcharge expires December 31, 2029.
- Manufacturing-related activities are the amounts reported on excise tax returns with manufacturing line codes and the related manufactured product selling activity reported on the Multiple Activities Tax Credit Schedule C.
- Some manufacturers "net" reported amounts instead of taking the multiple tax activities credit. The businesses identified as doing so were removed from the population.
- Deductions taken on the excise tax returns for exempt food, prescription drugs, and motor vehicle fuel sales are used to estimate the amount of such sales.
- Taxpayers who owe the B&O surcharge must file excise tax returns monthly.
- The general fund receives the taxes from the B&O surcharge.

PART III - ADVANCED COMPUTING SURCHARGE

- The ACS changes take effect January 1, 2026, and impact one quarter of ACS collections in fiscal year 2026.
- Taxpayers file the ACS return quarterly on one return for all entities in an affiliated group.
- Because the amount of ACS tax paid is capped, 41% of the annual tax paid is collected in quarter 1 of the calendar year.

PART IV - MODIFYING THE BUSINESS AND OCCUPATION TAX DEDUCTION FOR INVESTMENT INCOME



Ten-Year Analysis

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Narrative Explanation (Required for Indeterminate Cash Receipts)

- The revenue impact from the 5% investment income requirement is indeterminate but positive. The data needed to calculate such impact is unavailable.
- The revenue impact from the non-profit organization exemption is indeterminate but negative. The data needed to calculate such impact is unavailable.
- There is no revenue impact from Part IV's CIV deduction; this clarifies current law.
- The CIV requirement that a CIV accept unrelated persons as investors means the CIV accepts investors outside its affiliates, subsidiary entities, parent entity, or subsidiaries of the CIV's common parent entity.

DATA SOURCES:

- Department of Revenue, Excise tax data
- Economic and Revenue Forecast Council, November 2024 taxable B&O forecast
- S&P Global Market Intelligence, November 2024 forecast for Aerospace Products and Parts
- Federal Financial Institutions Examination Council, Call reports
- Federal Deposit Insurance Corporation data

REVENUE ESTIMATES:

This bill increases state revenues by an estimated \$496.6 million in the eight months of impacted collections in fiscal year 2026, and by \$1.570 billion in fiscal year 2027, the first full year of impacted collections.

TOTAL REVENUE IMPACT:

State Government (cash basis, \$000):

FY 2026 -	\$ 496,600
FY 2027 -	\$ 1,569,600
FY 2028 -	\$ 1,739,200
FY 2029 -	\$ 1,817,600
FY 2030 -	\$ 1,565,500
FY 2031 -	\$ 1,274,200

Local Government, if applicable (cash basis, \$000): None



Ten-Year Analysis

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2081 E S HB	Business and occupation tax	140 Department of Revenue

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